

BILL # SB 1178

TITLE: property tax exemption; widows

SPONSOR: Tibshraeny

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current law, a widow, widower, or disabled person is allowed a property tax exemption of \$3,000 if their home is not assessed at more than \$20,000. Beginning in tax year 2005, the assessment limitation will be indexed to inflation. To qualify for the exemption, the income level of the claimant cannot exceed \$18,840 if he or she has children under age 18 and \$13,200 otherwise.

This bill would increase the income threshold to qualify for the exemption to \$20,000 for property-owners with children under age 18 and to \$15,000 for all other widows, widowers, and disabled persons. In addition, the proposal would also require the allowable exemption amount (\$3,000) and income limitations to be indexed to inflation.

Estimated Impact

The estimated annual General Fund impact from the bill is about \$160,000 beginning in FY 2007 for increased state costs for the Arizona Department of Education's Basic State Aid formula due to decreased local tax base.

Analysis

The Maricopa County Assessor's Office expects to grant about 8,000 exemptions to widows, widowers, and disabled persons in tax year 2005 under existing law. The corresponding figure for Pima County is 6,250. The number of property tax exemptions issued in the other 13 counties is not known. However, since the population in Maricopa and Pima County is 75% of the state total, we estimate the statewide number of exemptions to be about 19,000.

If we assume that the Gross Domestic Product (GDP) Price Deflator will grow by 2% in calendar year 2005, then the exemption amount would be increased by \$60 for tax year 2006 ($\$3,000 \times 0.02$). This means that the statewide net assessed valuation (NAV) would be reduced by an estimated \$1.1 million ($19,000 \times \60).

The NAV impact of the increased income thresholds under this proposal is more difficult to predict. The parcel data compiled by the state's county assessors does not include information about the income level and status (i.e., whether a person is widowed or disabled) of residential property-owners.

As noted above, the current income limitations are \$13,200 and \$18,840, respectively. However, Social Security benefits are not included when calculating these amounts. For this reason, the Maricopa County Assessor's Office estimates that the "real" income limitation (i.e., after including Social Security benefits) is more likely between \$20,000 and \$30,000. This suggests that the new and higher "real" income threshold could lie between \$21,500 and \$31,500.

While we are not able to determine the number of additional exemptions that would result from the higher income thresholds because of the aforementioned data limitations, we do not believe that it is unreasonable to assume that this figure would be about 5% or equivalently, 950 exemptions. This translates into a further NAV reduction of about \$2.9 million.

All together, the total NAV reduction resulting from this proposal would be about \$4 million (\$1.1 million plus \$2.9 million). Assuming an effective tax rate of \$4 per \$100 NAV for the qualifying and county equalization tax, we estimate that the state share of school funding would increase by about \$160,000 in FY 2007. Under the state's K-12 funding formula, whenever the local property tax base decreases, the General Fund cost for Basic State Aid increases.

Local Government Impact

This bill would shift the tax burden from widows, widowers, and disabled persons exempted under this bill to other property owners and/or result in property tax losses for local governments.

2/7/05